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SUBJECT: GLOBAL HUNGER AND FOOD SECURITY INITIATIVE: MOZAMBIQUE

REF: STATE 127466; STATE 124059

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1. SUMMARY: With untapped economic potential and high levels of poverty and malnutrition, Mozambique merits consideration for inclusion in the Global Hunger and Food Security Initiative (GHFSI). However, based on current discussions about overall USG assistance levels in relation to heightened democracy and governance concerns, increasing corruption, lack of transparency, and the Government of Mozambique's failure to utilize some existing agricultural financial resources already available, Post recommends that Mozambique's initial participation in the GHFSI take place within the current resource levels. This would mean using already-funded ongoing activities to improve nutrition, agricultural production, rural enterprises, infrastructure and human capacity to pursue GHFSI objectives. Should the GRM show concrete progress on USG concerns in the coming months, increased funding levels could then be considered. Effectiveness of programming to improve food security at any level will require policy actions by the GRM, including: 1) developing a food security investment plan as part of the Consolidated Africa Agricultural Development Program (CAADP); 2) expanding access to agricultural inputs of finance, fertilizer, improved seed and important extension services; 3) diminishing barriers to trade efficiency and private sector investment; 4) improving nutrition standards; 5) ensuring sustained support for priority infrastructure from local and provincial governments; 6) developing human capacity focused on entrepreneurship and business skills, and; 7) strengthening the existing capacity to respond to natural disasters and threats to agriculture from global climate change. Post has engaged the government on these issues at various levels with varying degrees of receptivity. These policy issues will inform our deliberations in donor fora and sector working groups. MCC's program to address land tenure issues directly addresses a critical policy issue and USAID programs with key business associations and civil society organizations are focused on priority actions to improve the business environment. END SUMMARY.

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GHFSI AT CURRENT FUNDING LEVELS  
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2. International indicators from respected observers such as Transparency International and Freedom House point to increased corruption and a reduction in the democratic space in Mozambique. The actions of the GRM that limited participation of opposition parties in the run-up to the October 28 general elections highlight a deteriorating general policy environment and are cause for concern. Given that current USG funding levels are likely to surpass \$400 million in 2010, and that the USG is already the largest donor to the country, Mozambique's initial involvement in the GHFSI may best be contemplated within a framework of maintaining current levels of funding for proposed activities as opposed to providing major increases at this time. Should the GRM show concrete progress on democracy and governance in the coming months

however, increased funding levels could then be considered. Furthermore, most of the key economic policy issues associated with the implementation of this initiative in Mozambique are not/not dependent on increased funding levels and action on key reforms would pave the way for greater impact with any future increase in resources under this initiative. These policy issues are highlighted in the draft Implementation Plan for Mozambique in relation to the five core investment areas. In each core investment area, in order to maximize progress toward improved agricultural production and greater food security, USG staff and programs would engage the GRM to promote the necessary policy actions or reforms.

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Core Area 1: Improve Productivity of Farmers  
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¶3. Pursue Mozambique's development of a strategic vision, priority investment plan, and performance measures under the Comprehensive African Agricultural Development Program (CAADP) process. A core principle of the GHFSI is that national food security efforts must be led by the host country. For countries in Africa, implementation plans should build upon and reflect the development principles and processes of CAADP. The CAADP plan should include prioritized investments, supporting policy agenda, and results based performance measures while taking into account potential effects of climate change on agriculture and disaster vulnerability. Mozambique has not made significant progress in implementing the CAADP process, but has developed various strategies that can be integrated and harmonized to serve as the foundation for this effort, including the Green Revolution Strategy, the Food Action Plan, and the draft 10-year Agricultural Sector Development Strategy (PEDSA). Analysis done by USAID, MCC, the World Bank, and others also contribute to a strong foundation for advancing the CAADP process.

¶4. Land tenure - All land in Mozambique is owned by the state which  
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issues usage rights to individuals and corporations. This system has led to uncertainty about land tenure rights for investors and traditional occupants of land parcels. Such uncertainty has limited the use of land as collateral to obtain credit for capital investment and working capital. Proposed reforms to include 1) establishing a mechanism to allow the usage rights documentation to serve as the basis for using land as collateral, 2) streamlining the transfer of land use concessions, especially in rural areas, by simplifying or eliminating the cumbersome government approval process, and 3) reforming the land tax system to improve revenue collection and to encourage users to make productive investment.

¶5. Farmer associations & cooperatives - A very good law governing associations and cooperatives was passed last year. However, it requires development and implementation of regulations to put this law fully into effect and the USG will encourage the Government of Mozambique to accelerate an awareness campaign to ensure district officials are able to implement the new policy.

¶6. Fertilizer - Low use of fertilizer in Mozambique is primarily due to limited access and prices that are beyond the means of most small farmers. Policy reforms to address these constraints include 1) eliminating the 2.5 % fertilizer import tax, 2) removing restrictions on transit of fertilizers within the country for domestic use, and 3) establishing a clear policy on whether fertilizer subsidies should be used to increase fertilizer access by smallholder farmers in rural areas.

¶7. Agricultural extension - The technology transfer that is a centerpiece of the Mozambique Implementation Plan requires an expansion of agricultural extension efforts involving both the government and private sector. The size and focus of government extension efforts is still a matter of policy debate and will need to be part of overall planning efforts.

¶8. Disaster Vulnerability reduction and Preparedness: The USG will continue its coordination with the Government of Mozambique and other donors to implement the National Disaster Management Agency's policies regarding preparedness for flooding along Mozambique's

rivers, as well as the development of village level disaster-management prepared committees to respond to other natural disasters, such as cyclones. Food insecurity in the southern provinces of Mozambique remains as a policy issue to be tackled, given that the political will to reform the necessary food security policies is not yet in place. For example, the Ministry of Agriculture is focused on encouraging the production of wheat in agricultural areas, including the south, where such production is not feasible or economical. Moreover, the donor community has not coalesced around the issue of food security for the southern provinces. The USG continues its efforts to develop a donor working group which would be prepared to take on this issue and encourage the Government of Mozambique to undertake a major reform of its policies that would lead to food security for the southern provinces. However, as the national highway linking the central and northern provinces (where the surpluses are grown) with the southern districts in Mozambique will be fully rehabilitated in 2012, the timing to shape the most appropriate policies to address food security for the southern provinces will be clearer at that point.

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Core Area 2: Improve Opportunities and Incentives for Entrepreneurs and Investors  
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¶9. Trade - Trade issues have been central issues in the private sector's current dialogue with the government related to "Doing Business" reforms but movement has been slow. The continuing recommendations to include 1) opening sea freight competition to allow domestic shipping, 2) reducing time required for imports and exports by eliminating the pre-shipment inspection and introducing an electronic payment system between importers, freight forwarders, dispatch agents and customs (single window), 3) reducing port handling charges, including the requirements and unreasonable costs for scanning incoming freight, and 4) expanding air transport competition and decreasing taxes and fees for airlines and passengers

¶10. Finance - Banks in Mozambique have been conservative in their lending and reluctant to finance agricultural projects and agri-business enterprises. Interest rates are high and banks prefer to purchase relatively risk free treasury bonds rather than make loans. Policy reforms to address these constraints include 1) creating a second-tier bond market to open new avenues for financing larger domestic businesses and create competition for banks in dealing with traditional clients, 2) introducing new banking regulations on commissions and fees that enhance transparency in the banking system, and 3) amending an existing policy to broaden the set of borrowers who can qualify for loans in foreign exchange.

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¶11. Labor - Though a new labor law passed in 2007 offers mechanisms to streamline and simplify labor requirements, the intended benefits have not been realized. Working with the new government, efforts will focus on 1) improving implementation of regulations, including automatic approval of work permits for expatriate workers within the labor law's quotas and 2) reducing the cost of termination in line with other SADC countries.

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Core Area 3: Improve Consumer Access to and Use of Nutritious Food  
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¶12. Fortification of staple foods - Should our P.L. 480, Title II program be restored to its original five-year design, it would overlap during the first years of the Global Hunger and Food Security Initiative, and the USG is prepared to work closely with the five major millers (purchasing the Title II and Food For Progress wheat) and the Ministry of Industry and Commerce to begin, on a pilot basis, the fortification of wheat before it is used to produce bread and pasta products for domestic consumption. We believe that Mozambique, with assistance from the donor community, is open to adopting the same fortification standards in use in the Republic of South Africa. This step will be a major milestone in improving nutrition standards for all Mozambicans (rural and

urban).

¶13. Climate Change Mitigation: The USG has ongoing programs focused on adaptation to climate change at the national, local and community level. These include developing research systems for determining agricultural vulnerability, improving agricultural extension methods in rural areas and the introduction of drought tolerant crops. An additional objective is to establish a clear policy for the promotion of specific conservation farming practices in the different agro-ecological zones of Mozambique together with a clearinghouse for information on these best-practice methods.

¶14. Prevention programs for malnourished children/pregnant women - The USG would work with both the Ministry of Health and the Ministry of Women and Social Action to encourage the adoption of the successful approach taken in our P.L. 480, Title II program. This program encourages mothers to make their own enriched porridges from locally grown products as an acceptable substitute for the distribution of imported commodities such as corn-soy blend (CSB). The use of enriched porridges for all children under the age of five helps to prevent malnutrition, as opposed to being used as part of a treatment plan for only those who are already malnourished. This approach is sustainable and makes better use of crops already being grown in the rural sector - where access to a product such as CSB would be difficult.

¶15. Training in Nutrition for Community Health Workers - Community Health Workers must be trained to respond to a variety of health needs in the community, such as HIV/AIDS, family planning and maternal/child health. The Ministry of Health is reviewing its policy to determine which health sectors will be included and the curriculum to be provided to ensure proper standardization in all training programs. The USG, with other donors, is participating in discussions with the Ministry of Health in its policy review.

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Core Area 4: Improve Rural Infrastructure  
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¶16. Provincial Budgeting: Past agreements with provincial representatives of the National Roads Authority (ANE) to maintain newly constructed or rehabilitated farm-to-market roads have failed because sufficient funds are not available to the provincial ANE. As this problem involves the budgeting process of Mozambique, the USG will (1) work with Provincial Governors where farm-to-market roads will be targeted to secure agreements that the provincial ANE budgets are sufficiently funded; (2) urge district administrators to allocate a portion of their 7 million meticaïs budget for local infrastructure maintenance; and (3) continue to push with other donors at the national level to have the fuel tax, which is for road maintenance, audited regularly to ensure transparency and proper use of the funds. Collectively, these efforts should address the issue of timely payments from government authorities to contractors.

¶17. Road classification and timely payment for maintenance: Each province in Mozambique maintains a classification system whereby road maintenance is scheduled and prioritized. Previously, many farm-to-market roads were not included in the classification exercise and, therefore, were not maintained. The USG will seek to work with the Provincial Directorate for Roads and Bridges (DPEP) to reclassify roads with the inclusion of farm-to-market roads. The ANE does not actually undertake road rehabilitation or maintenance, but contracts out the work to small and medium sized enterprises (SME).

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Unfortunately, at the provincial level, the ANE's payment process is not timely - which places SMEs at risk. Many SMEs are reluctant to undertake work for the ANE because of this. The USG will continue to review the process and work with the provincial ANE/DPEP to identify reforms to simplify the payment process for SMEs.

¶18. Improved Market Infrastructure: One of the key challenges in developing the agribusiness sector, especially in the post-harvest portion of the value chain, is the lack of appropriate market infrastructure to ensure that products arrive to the customers without deterioration in quality. Among the infrastructures that

need to be developed are processing facilities, cold chain, storage and handling facilities, water pumps, irrigation infrastructure, warehouses, etc. Working with the new government, efforts will focus on 1) joint programming of investment priority areas in infrastructure development, and 2) encouraging the GRM to involve as much as possible the private sector in managing and maintaining the market infrastructures to be built.

¶19. Pump Standardization: At present, the Ministry of Public Works has only approved one type of pump for community wells. While pumps need to be standardized to ensure that spare parts become readily available and mechanics sufficiently trained, the process to get approval for pumps for different conditions (depth of the well, improved pumps) is cumbersome. The USG proposes to continue to work with the Ministry of Public Works to review the process to introduce approved pumps for Mozambique.

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#### Core Area 5: Develop Human Capacity

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¶20. A major challenge to achieving growth in Mozambique is weak human capacity in the areas of democracy, agriculture, business, education, and health. To address this challenge, the US Government will address policy reforms which will 1) build the capacity of existing educational institutions to introduce finance and business skills; 2) mobilize workplace training programs for bank staff that increase understanding of credit risks for clients without previous bank history, and; 3) promote local Universities' ability to offer advanced degrees in agriculture, health and business administration so that students no longer need to be trained elsewhere.

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#### Diplomatic Strategy to Support the Implementation Plan

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¶21. The diplomatic strategy to address the above policy agenda involves all agencies at post and a wide range of interventions and activities including direct policy dialogue with key decision-makers, policy analysis, policy advocacy through stakeholder dialogue with the Mozambican government, support for development of policy options and implementing regulations. The key elements of this strategy involve many key actors and USG programs in multiple fora.

¶22. Chief of Mission direct policy dialogue at the highest levels - The size of the USG assistance program provides access to government officials at the highest levels. Once the new Government is in place, the Chief of Mission will include food-security-related policy issues as part of an ongoing dialogue with senior GRM policy makers. Initially, this should focus on moving ahead with the CAADP process, addressing long-standing issues affecting trade, and garnering high-level support for a process to address land tenure issues.

¶23. Direct policy dialogue with Ministries - The USAID Director, MCC Director, and Political/Economic Counselor all have direct relationships with key Ministers involved in policy issues identified in the Implementation Plan and are important figures in policy dialogue fora. USAID's role in the leadership of the Private Sector Working Group provides dialogue opportunities on issues associated with the business environment. MCC's support for development of the Land Forum provides opportunities for engagement on land reform. Other staff also has contacts within key Ministries to address these policy issues at the working level of Ministries and with Provincial authorities. For example, monthly meetings are held at a working level with Ministry of Industry and Commerce staff.

¶24. Influencing the policy dialogue of donor groups and Technical Working Groups - USG associate membership in the G-19 donor group and a leadership position in a nascent all-inclusive donor group offer opportunities to influence the direction of policy dialogue carried out by those groups with the GRM. We have already been successful in putting business environment issues onto that limited agenda. Policies associated with the ProAgri common fund focused on agricultural development have been discussed at the Heads of



Cooperation level. USG programming and commitment to key aspects of private sector development, agricultural development, and food security, as well as in-country presence of competent technical staff, have led to USG leadership in important technical working groups involving donors and GRM representatives. These working groups play a key role in evaluating GRM performance and identifying priority issues for funding and higher-level policy dialogue. The USG is represented in the leadership of the Private Sector Working Group, the ProAgri group, and Technical Working Groups focused on Water, Roads, and Nutrition.

¶25. Program support for policy dialogue - Key stakeholders and civil society partners of the USG contribute to the dialogue on some important policy issues outlined above. For example, USAID support for business associations has helped them develop an ongoing formalized dialogue on some of these[U1] issues[U2].

¶26. Regional networks - Agriculture and Food Security programs will collaborate with regional organizations and regional development initiatives. Examples include: New Partnership for African Development (NEPAD), Food and Agriculture Policy Analysis Network (FANRPAN), Regional Strategic Analysis and Knowledge Support System (RESAKSS) which is implemented by the International Food Policy Research Institute) for policy reform and investment planning; CARDESA for agricultural research; and East and Southern Africa Seed Alliance (ESASA) for the seed sector.

¶27. Local support for policy dialogue - Many USG-funded activities are supporting the development of community-based organizations (CBOs) to strengthen the voice of civil society regarding democracy and governance at the village level. USG-funded programs that develop and enhance the capacity of Community Councils are made up of leaders from Farmer Associations, Health Groups, Water Management Committees and other key elements of the community (including religious leaders, teachers, and the village chiefs). The Community Councils are effective voices at the district level to promote policy changes or to lobby for district funds. Additionally, a federation comprised of Farmer Associations in each district is being formed. These federations, collectively, will be utilized to form a voice for agriculture policies at the provincial level.

¶28. Public diplomacy - Many of these policy issues can be raised in public speeches, interviews, and discussions involving USG staff and in editorials placed in local publications. USG support for forums and conferences can also be used to focus on selected issues and technical experts working in USG programs can offer interviews or analysis to the press.

¶29. Support for the CAADP process - A first priority for the diplomacy strategy supporting the Mozambique Implementation Plan is to ensure Mozambican leadership of this process. In FY 2010, the USG will support, in collaboration with other donors, the CAADP process leading to development of a CAADP "compact" and a medium term CAADP investment plan to help in meeting the Millennium Development Goal (MDG) of reducing poverty, hunger, and child malnutrition. Michigan State University and IFPRI, along with key International Agricultural Research Centers (IARCs) and development partners, will assist with required analysis and support the collaborative stakeholder consultation process. A multi-stakeholder workshop on the CAADP is being planned for first quarter of CY 2010. MINAG, with donor support, is currently finalizing the PEDSA to ensure that it is consistent with the CAADP framework.

¶30. USG Interagency Coordination - USG agencies at post coordinate activities through a range of mechanisms. Mozambique has an "all of government" Country Assistance Strategy (FY 2009 - 2014) which was developed through a coordinated multiagency process and after extensive consultations with stakeholders. Related to trade and investment, the USTR-led USG interagency process for advancing the Trade and Investment Framework Agreement between the US and Mozambique involves 13 USG agencies (Commerce, Energy, Ex-Im, Labor, MCC, OPIC, SBA, State, Treasury, USAID, USDA, USTDA, USTR). A USG interagency Economic Working Group meets regularly to discuss economic policy, business, trade, and related areas. USG agencies in Mozambique will collaborate with the Southern Africa Global

Competitiveness Hub for regional economic integration and trade facilitation; and with regional representatives and programs of USAID, USDA, Commerce and USTR.

[U1]Teresa: This appears to address the national level policy dialogue while paragraph 24 addresses the local or district dialogue. I think the salient point here is that our implementing partners are also engaged in the policy dialogue. If that can be captured elsewhere, that would be fine. Robert  
[U2]Could this paragraph be eliminated or combined with no. 24?